

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 /054 W

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R 031924Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7884

UNCLAS LONDON 01653

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC FORECASTING; INDUSTRIAL PRODUCTION

REF: STATE 16464

1. IN EMBASSY'S VIEW, INDUSTRIAL PRODUCTION WILL CONTINUE TO DECLINE IN FIRST AND SECOND QUARTER OF 1975, THEN LEVEL OFF THROUGH SECOND HALF 1975. FIRST QUARTER 1976 SHOULD SEE UPTURN CONTINUING IN SECOND QUARTER.

2. THIS ESTIMATE BASED ON FOLLOWING ASSUMPTIONS:

- (A) PRESENT POLICIES CONTINUE TO OBTAIN;
- (B) ONLY MODERATE TERMS OF TRADE DETERIORATION (I.E. 2-3 PERCENT);
- (C) WAGE ACCELERATION MODERATES BUT NOT TO BELOW 20 PERCENT PER YEAR;
- (D) OUTLOOK (AND POLICIES) IN REST OF INDUSTRIAL WORLD REMAIN AS AT PRESENT (I.E. ZERO GROWTH IN WORLD TRADE AND ONLY MODERATE REFLATIONARY POLICIES).

3. HOWEVER, A MAIN BUDGET IS DUE HERE IN MARCH OR APRIL WHICH COULD ALTER THIS ESTIMATE SIGNIFICANTLY. IF WAGE SITUATION APPEARS UNDER CONTROL THEN GOVERNMENT MAY ATTEMPT REFLATION OF ECONOMY, IN WHICH CASE, INDEX WOULD PROBABLY BEGIN TO RISE IN LATE 1975. ALSO CONSTRUCTION, WHICH RE-

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DUCING OVERALL INDEX BECAUSE OF EXTREME WEAKNESS AT PRE-

SENT, COULD RECOVER MORE RAPIDLY IF NEWLY ANNOUNCED  
GOVERNMENT POLICY ON HOUSING IMPLEMENTED QUICKLY AND TREND  
TO LOWER INTEREST RATES CONTINUES.

4. THROUGH NOVEMBER INDUSTRIAL PRODUCTION INDEX AS  
FOLLOWS (1970 EQUALS 100):

	ALL INDUSTRIES	MANUFACTURING
1972	102.4	102.0
1973	109.9	110.5
1974/I	103.4	105.5
	ALL INDUSTRIES	MANUFACTURING
1974/II	107.8	109.3
1974/III	109.0	110.6
OCT 1974	108.0	108.5
NOV 1974	107.5	108.7

5. OUR GUESS IS THAT FIRST AND SECOND QUARTER WILL BE  
DOWN FOR BOTH ABOVE INDEXES (SAY ABOUT 106 AND  
107 RESPECTIVELY BY 1975/II). SECOND HALF 1975 SHOULD SEE  
LITTLE IMPROVEMENT WITH ALL INDUSTRY INDEX BEGINNING TO  
RISE MORE QUICKLY THAN MANUFACTURING BECAUSE OF IMPETUS  
OF CONSTRUCTION (SO THAT BOTH INDEXES MIGHT BE AT ABOUT  
107.5 BY 1975/IV). IN FIRST HALF 1976, WE EXPECT TO SEE  
SOME GAIN SO THAT BOTH SHOULD BE BACK TO ABOUT 110 BY  
1976/II.

6. GIVEN WIDE DIVERSITY BETWEEN FORECASTS MADE FOR UK  
ECONOMY, AND UNCERTAIN OUTLOOK FOR WORLD TRADE, ALL PRO-  
JECTIONS SHOULD BE VIEWED SKEPTICALLY. OUTLOOK FOR SECOND  
HALF 1975 MAY TURN OUT TO BE LESS FAVORABLE THAN IN ABOVE  
PROJECTIONS. SPIERS

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